

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF AQUASOURCE UTILITY, INC. FOR)	
ALL APPROVALS NECESSARY FOR THE SALE AND)	CASE NO. 2000-130
PURCHASE OF THE B&H INC. WASTEWATER)	
SYSTEM)	

ORDER

AquaSource Utility, Inc. ("ASU") has applied for Commission approval of its proposed purchase of the assets, including wastewater treatment facilities, of B&H, Inc. ("B&H"). Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. B&H, a Kentucky corporation, owns and operates sewage treatment facilities in Madison County, Kentucky that serve approximately 152 customers for compensation in the Brooklyn Subdivision of Madison County, Kentucky.

2. B&H's sewage treatment facilities consist of a sewage treatment plant with a maximum daily treatment capacity of approximately 70,000 gallons.

3. B&H is a utility that is subject to Commission jurisdiction. KRS 278.010(3)(f).

4. On December 21, 1999, B&H and its shareholders, Bob L. Hagar and Lorene Bolton, executed an Asset Purchase Agreement to convey B&H's assets to ASU for the sum of \$61,000.

5. ASU is a Texas corporation and has its corporate headquarters in Coraopolis, Pennsylvania.

6. ASU is a wholly owned subsidiary of AquaSource, Inc.
7. AquaSource, Inc. ("AquaSource"), a Texas corporation, owns and operates water and wastewater systems in 12 states and currently serves more than 370,000 customers.
8. As of December 31, 1999, AquaSource had total assets of \$499,061,665 and total liabilities of \$251,415,842. It had total shareholder equity of \$247,645,823.
9. For the year ended December 31, 1999, AquaSource had total revenues of \$134,822,846, total operating income of \$13,452,407 and net income of \$4,631,086.
10. Upon acquisition of B&H, ASU intends to use employees from Goshen Utilities, Inc., a water and sewer utility which is located in Oldham County, Kentucky, and which ASU owns, to operate and manage the acquired assets.
11. ASU has the financial, technical, and managerial abilities to provide reasonable utility service to those persons whom B&H currently serves.
12. Upon acquisition of B&H's facilities, ASU intends to make \$30,300 in capital improvements to those facilities. These improvements should improve the quality of utility service provided to B&H's existing customers.
13. The proposed transfer is in accordance with law, is for a proper purpose, and is consistent with the public interest.
14. An acquisition adjustment is generally required for accounting purposes when the original cost of an asset and the acquisition cost differ.
15. As of December 31, 1999, B&H had reported net utility plant of \$24,309 and contributions in aid of construction of \$24,309. When B&H's contributions in aid of

construction are deducted from net utility plant, the acquired facilities have a net value of \$0.

16. The proposed transaction requires, for accounting purposes, a purchase acquisition adjustment of \$61,000.

17. Any decision on the rate-making treatment of the acquisition adjustment should be deferred until ASU's first general rate adjustment proceeding.

IT IS THEREFORE ORDERED that:

1. The proposed transfer of assets from B&H to ASU is approved subject to the conditions set forth in Ordering Paragraph 2.

2. ASU shall obtain all necessary regulatory approvals, licenses, and permits, including a certificate of authority to transact business in Kentucky and a Kentucky Pollutant Discharge Elimination Permit, necessary to operate the acquired assets in conformance with the laws of Kentucky.

3. ASU is authorized to treat the difference between the purchase price and the book value of the acquired assets as an acquisition adjustment for accounting purposes only.

4. ASU is authorized to amortize the acquisition adjustment over a 20-year period for accounting purposes only.

5. ASU shall record the acquisition adjustment on its books in accordance with the requirements of the Uniform System of Accounts.

6. The approval granted herein shall have no rate-making implications. In any rate-making proceeding, ASU shall bear the burden of demonstrating that the acquisition adjustment and amortization are appropriate for rate-making purposes.

7. Within 10 days of completion of the proposed transfer of assets, B&H and ASU shall notify the Commission in writing of the completion of the transfer.

8. Within 10 days of completion of the transfer, ASU shall file with the Commission the journal entries used to record the purchase and identify the detailed plant accounts to which the assets are recorded. ASU shall also file the proposed amortization of the acquisition adjustment as a journal entry.

9. Within 10 days of completion of the transfer, ASU shall file with the Commission an adoption notice, conforming to the requirements of Administrative Regulation 807 KAR 5:011, Section 15(6). In this notice, ASU shall adopt and ratify as its own all of B&H's rates, rules and classifications on file with the Commission and effective at the time of the transfer.

10. Within 10 days after the filing of its adoption notice with the Commission, ASU shall issue and file in its own name B&H's tariff or such other tariff as it proposes to put into effect in lieu thereof, in the form prescribed in Administrative Regulation 807 KAR 5:011.

11. B&H shall be responsible for submitting to the Commission a financial and statistical report, as described in Administrative Regulation 807 KAR 5:006, Section 3, for the period in calendar year 2000 it owned and operated the transferred assets.

12. ASU shall be responsible for submitting to the Commission a financial and statistical report, as described in Administrative Regulation 807 KAR 5:006, Section 3, for the period in calendar year 2000 in which it owns and operates the transferred assets.

Done at Frankfort, Kentucky, this 15th day of May, 2000.

By the Commission

ATTEST:


Executive Director